MINUTES

MONTANA HOUSE OF REPRESENTATIVES
59th LEGISLATURE - REGULAR SESSION

COMMITTEE ON STATE ADMINISTRATION

Call to Order: By **CHAIRMAN LARRY JENT**, on January 19, 2005 at 8:00 A.M., in Room 455 Capitol.

ROLL CALL

Members Present:
Rep. Larry Jent, Chairman (D)
Rep. Dee L. Brown, Vice Chairman (R)
Rep. Veronica Small-Eastman, Vice Chairman (D)
Rep. Joan Andersen (R)
Rep. Mary Caferro (D)
Rep. Sue Dickenson (D)
Rep. Emelie Eaton (D)
Rep. Robin Hamilton (D)
Rep. Gordon R. Hendrick (R)
Rep. Teresa K. Henry (D)
Rep. Hal Jacobson (D)
Rep. William J. Jones (R)
Rep. Gary MacLaren (R)
Rep. Bruce Malcolm (R)
Rep. Alan Olson (R)
Rep. Bernie Olson (R)

Members Excused: None.

Members Absent: None.

Staff Present: Sheri Heffelfinger, Legislative Branch
Marion Mood, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing & Date Posted: HB 181, 1/11/2005;
HB 148, 1/11/2005;
HB 104, 1/11/2005;
HB 239, 1/11/2005;
HB 135, 1/11/2005
Executive Action: HB 112; HB 135

HEARING ON HB 181

Opening Statement by Sponsor:

REP. JOHN MUSGROVE (D), HD 34, opened the hearing on **HB 181,** Increasing funding and adjusting benefits in TRS. State law requires that the state's retirement system is actuarially sound, meaning the unfunded liability cannot extend past 30 years; currently, it is beyond those 30 years and HB 181 is an attempt to remedy this. He remarked that Amendment HB018101.ash will correct those aspects of the bill which were deemed to be less effective at decreasing the amortization period. He advised that the amendment strikes Section 1 in its entirety as well as Sections 5 through 9; these changes made for a better bill.
EXHIBIT(sth14a01)

Proponents' Testimony:

David Senn, Teachers' Retirement Board, offered the rationale behind striking some of the provisions and why they had been put in the bill initially. He stated that a first look at the teachers' retirement system about a year ago had raised some red flags but his office hoped for the best in terms of positive changes in the stock market. When this did not materialize, they had to find a way to bring the system into compliance and remain actuarially sound as required by law. It was feared that a required increase in the contribution rate of about 3.6% was necessary which was unacceptable. One way to bring the contribution rate down was to change the benefit structure for new hires. His office calculated that it was not necessary at this time since the cost was not as high as anticipated and would amount to a contribution rate increase of 2.87% if the corrections were made all at once. He stated that the savings from the benefit changes amount to .64% and stressed that any changes made would hurt recruitment and retention of teachers. Small rural communities already have difficulties in recruiting teachers, and his office did not want to do anything to exacerbate the problem. He felt that revamping the system was necessary but should allow for teachers' input and more time.

Mr. Senn provided Exhibit 2 which outlines the Teachers' Retirement System's (TRS) actuarial funding proposal. He advised that on the last page of the handout, he had highlighted in gray those sections of the bill that the proposed amendments would strike. He explained that since each of the changes affected other sections of the Teachers' Retirement Act, several section of HB 181 would be deleted.
EXHIBIT(sth14a02)

Referring to Section 3, he explained that this proposal would increase the employers' contribution rate by 1.2%, effective July 1, 2005; another increase is planned for the following biennium, effective July 1, 2005, and the amendments request a third increase of .75%, effective July 1, 2009. This will give the Board time to react to the market; if it improves enough to maintain a 25-year amortization period for TRS, the bill requires that these increase will sunset.

Section 4 talks about the university system's Optional Retirement Plan (ORP), established in the 1987 legislative session, which gave faculty and administrators the option to participate in something other than TRS. This plan was a private annuity plan which remained optional until 1993; after that, it became mandatory because many older faculty members joined the university system whose retirement was not that far off. This created an unfunded liability because of the short time frame in which to earn a decent investment return.

Mr. Senn explained that the retirement system is not funded on a pay-as-you-go basis; rather, it collects benefits on future salaries. This leaves unfunded liabilities, namely the percentage of future salaries of people who would no longer participate in TRS. In order to keep the system whole, the university system agreed to pay for their share of the unfunded liabilities; an increase in the supplemental contribution rate will be phased in as specified in Section 4. He asked for support of HB 181 as amended and offered to answer any questions.

Tom Bilodeau, Montana Education Association/Montana Teachers' Federation (MEA/MFT), rose in support of HB 181 as amended; he stressed that the amendments were critical to the bill for the reasons given by Mr. Senn. He advised that the expenditures arising from HB 181 were included in the Governor's budget.

Glen Leavitt, Director of Benefits, Montana University System, also stood in support of the bill.

Amy Carlson, Governor's Budget Office, provided a summary of proposal changes, Exhibit 3. She explained that the requested changes result in a 10.6% employer contribution to TRS which is unacceptable to David Ewer, Governor's Budget Director, who suggested the 3.15% increase should be shared equally by the current employer and future employees; he also suggested a reduction in benefits as proposed in HB 181. **Ms. Carlson** stated it was important to do this now because otherwise, employees would be locked in at the current benefit levels for two more years. She added that benefits could be increased at a later date but the law prohibits a decrease in benefits once an

employee has signed on to a retirement system. Additionally, the bill understates potential market losses which would result in an even higher contribution rate.
EXHIBIT(sth14a03)

Lance Melton, Montana School Board Association, expressed the Association's support of HB 181 because it addresses the constitutional responsibilities for actuarial soundness in TRS. He qualified that his support is specifically predicated on Mr. Senn's testimony and the removal of Sections 5 and 6 of the bill, stressing that the three-year waiting period in current law prevents abuse; this provision should not change.

{Tape: 1; Side: B}
Opponents' Testimony: None

Questions from Committee Members and Responses:

VICE CHAIR DEE BROWN, HD 3, HUNGRY HORSE, referred to Mr. Bilodeau's comments with regard to striking the five-year averaging requirement. She recounted that oftentimes, teachers leave the classroom to go into administration for their last three years; this increases their yearly average as well as their benefits even though contributions over the previous 22 to 30 years do not merit such an increase; she wondered how often this occurred. **Mr. Bilodeau** advised that it was relatively infrequent; most teachers made such a move prior to their final years of employment. He added that the opposite occurred more often: when teachers engage in extracurricular activities such as coaching sports or drama classes after school, their contributions are based on those wages; if they choose not to do this anymore in their last 5 or so years of employment, they actually lose benefits. He felt a more serious issue was the number of employees who would leave the state at 25 years of service if their pension was reduced through a five-year averaging as this would result in a 3% reduction in benefits.

VICE CHAIR BROWN asked him to elaborate how many states had a "25 years and out" calculation rather than some balance between age, service and so forth. **Mr. Bilodeau** replied that there were about five states which had a "years of service" qualifier. There are only three states which calculate at 25 or less years of service. He added that Montana's multiplier of 1.67% is among the lowest benefit formulas in the country; with this rate, the pension for 25 years of service amounts to 42% and that of 30 years of service, to 50% of the final average salary.

REP. HAL JACOBSON, HD 82, HELENA, remarked that he was not surprised by the Fiscal Note and asked if Mr. Senn had looked at the numbers contained therein. **Mr. Senn** replied that the Budget Office had prepared the Fiscal Note; he was not sure that he could answer questions pertaining to it. **REP. JACOBSON** wondered where the federal money mentioned in it came from. **Mr. Senn** deferred the question to Amy Carlson. **Ms. Carlson** advised that the federal component on the bottom of Page 2 is comprised of all federal funds given to school districts, including those for Title 1, ITEA, and Impact Aid. The employer would have to pick up the increased contributions for employees hired with those funds. **REP. JACOBSON** contended that school districts budget federal funds down to the penny and asked how they managed find another $500,000 in the biennium and divert it to other uses. **Ms. Carlson** advised that the Office of Public Instruction (OPI) does have anticipated increases in funding for the school districts; she was not sure this was in this bill, though.

REP. ALAN OLSON, HD 45, ROUNDUP, asked Mr. Senn whether this increase went to the school district budget which **Mr. Senn** affirmed. **REP. OLSON** inquired if any consideration was given to splitting the cost between the employee and the employer. **Mr. Senn** replied that the Montana Constitution creates a contractual right for level benefits, and a new hire can not be charged more without being provided additional benefits; in other words, they are paying for the level of benefits that were promised by the legislature. **REP. OLSON** asked how the original rate was set. **Mr. Senn** explained that the initial rate was borne almost exclusively by the employer but has changed over the years to where it is almost equal between the two.

REP. TERESA HENRY, HD 96, MISSOULA, requested clarification on whether the administration supported HB 181 as written or with the amendments. **Ms. Carlson** advised they supported the bill as introduced.

REP. ROBIN HAMILTON, HD 92, MISSOULA, asked how the amendments would affect a teacher who had worked part-time while raising her children; to maximize her retirement benefits, she currently would need three consecutive years at a higher pay rate. The effective date of the bill is July 1st; if this school year was her second one back working full-time, and she was planning to retire in 2006, would she have to put in an additional two years. **Ms. Carlson** explained this provision applied only to people hired after July 1, 2005.

REP. HAMILTON wondered if these changes took effect 25 years from now. **Mr. Senn** advised that the proposed changes in the benefit design were to take effect only for new hires after July 1, 2005, and they could affect someone as early as five years after that.

CHAIRMAN LARRY JENT, HD 64, BOZEMAN, wanted to clarify some issues that were brought up and read from Title 8, Section 15, of the Montana Constitution: **"Public Retirement System Assets:** Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses". He added this was the first section of Constitutional Amendment No. 25 which was approved by the voters on November 8, 1994. In the chairman's opinion, this constitutional amendment is the source of the requirement that changes be limited to people hired after July 1, 2005. **Mr. Senn** agreed, adding that he thought another provision also played into it.

CHAIRMAN JENT asked Mr. Melton if he knew what it was. **Mr. Melton** advised that there was a general division in the Constitution which talks about the legislature being prohibited from impairing vested contract rights.

REP. BERNIE OLSON, HD 10, LAKESIDE, wanted to know why the Governor was opposed to the amendments. **Ms. Carlson** repeated that the administration favors the bill as introduced.

CHAIRMAN JENT ascertained that the sponsor supported the amendments. **REP. MUSGROVE** commented that he regretted going against the wishes of the Governor and the Budget Office but he felt that the bill as written would exacerbate the state's problems with recruitment and retention of teachers.

CHAIRMAN JENT summarized the bill for the committee, including Mr. Senn's recommendations.

REP. WILLIAM JONES, HD 9, BIGFORK, wondered if "Fiscal Note as introduced" meant that it contained funding for the amendments. **REP. MUSGROVE** replied that the amendments had no impact on the fiscal note.

REP. SUE DICKENSON, HD 25, GREAT FALLS, asked Mr. Senn to explain the Optional Retirement Plan. **Mr. Senn** advised that the Optional Retirement Plan (ORP) was created in 1987 for university faculty and administrators; with it, they could elect not to participate in the TRS but rather in a private plan which offered more portability.

REP. DICKENSON seemed to recall that the ORP is no longer an option which **Mr. Senn** affirmed, adding that faculty entering the university system have to participate in the Optional Plan unless they are already members of the TRS.

{Tape: 2; Side: A}
REP. JOAN ANDERSEN, HD 59, FROMBERG, stated that she understood there was no impact on the Fiscal Note for the next biennium but wondered how the increases would affect the 2009 and 2011 Biennia. **Mr. Senn** explained that the 2009 Biennium would not be affected; the employer contribution rate increase of .75% will be applied to future salaries, totaling approximately $3 million. **REP. ANDERSEN** surmised that future increases would be necessary if market conditions do not improve dramatically. **Mr. Senn** claimed that the contribution rate increases calculated by the actuaries are based on the assumption that the investment return would be 7.75%; if this is the case, the increases will be sufficient to amortize the unfunded liabilities over 30 years. If the earnings are higher, the increases would be reduced; he added that the optimal scenario was to go back to the current level of 7.47%

VICE CHAIR BROWN surmised that this was the reason behind the Governor's Office: eliminate some of the amendments and keep the five-year versus the three-year averaging. **Ms. Carlson** stated the Budget Office's goal was to resolve the issue within two biennia. She added that the decision making process had happened during the Martz administration; the size of the unfunded liability in TRS is so significant that it has to be a shared approach.

Closing by Sponsor:

REP. MUSGROVE closed.

HEARING ON HB 148

Opening Statement by Sponsor:

REP. CAROL LAMBERT (R), HD 39, opened the hearing on **HB 148,** Provide actuarial funding for retirement systems. She added that while the Public Employment Retirement System (PERS) covers eight categories, this bill addresses only three of them, namely the sheriffs', game wardens' and peace officers' pension plans. She reiterated many of the statements made for HB 181, such as the constitutional requirement and the stock market collapse of 2001 and 2002. The increases proposed in HB 148 are in the Governor's budget; she stressed they would be reverted when actuarially funded.

Proponents' Testimony:

Mike O'Connor, Montana Public Employees' Retirement Administration (MPERA), mentioned the Retirement Board's Annual Report which was available to the committee as well as other supporting documentation.
EXHIBIT(sth14a04)
EXHIBIT(sth14a05)

Mr. O'Connor repeated his earlier statements with regard to the independent audit of the Board's actuaries' evaluations and assumptions and reiterated that the contributions to each retirement plan must be sufficient to pay its full actuarial cost; for the defined benefit plan, full actuarial cost includes both the cost of providing benefits since they accrue in the future, and the cost of amortizing the unfunded liabilities over no more than 30 years. He referred to Table 5 of the "Green Sheets" (a summary of retirement plans, rates and formulas compiled by PERS) where it shows 6.9% employee and 6.9% employer contributions for a total of 13.8%. The current cost of benefits is 12.08%, and the difference of 1.64% between the two represents the unfunded liability which he compared to a mortgage to facilitate understanding.

Mr. O'Connor referred to the graph in Exhibit 5 which shows a marked decrease in earnings due the collapse of the stock market in 2001 and 2002, resulting in losses of $385 million and $425 million respectively. The second page shows actual gains and losses, and the chart on the third page illustrates how benefits are funded. He contended that if the actuaries' assumptions are correct, the additional contributions will be reduced within six years.

Tom Schneider, Montana Public Employees Association (MPEA), also rose in support of HB 148. To put things in perspective, he recounted that when he went to work for the teacher's retirement system in 1957, the average salary calculation for the retirement system was based on five years; it was changed to three years since it did not meet the requirements for adequate retirement benefits. He stated that the current problem is market-driven and will be solved by the anticipated market turn-around; he lauded the sponsor for specifying a sunset once this occurs and increases will no longer be needed.

Amy Carlson, Governor's Budget Office, voiced her support for HB 148 as introduced, adding that since PERS was in better financial condition than TRS, the proposed increases were not as dramatic. She requested an amendment to the bill which would provide that the appropriation be done through it.

Terry Teichrau, Public Employees Retirement Board (PERB), encouraged the committee to support the bill because with the changes proposed in another bill from a three to a five year averaging and the 3% Guaranteed Annual Benefit Adjustment (GABA), people with different types of retirement would be working side by side which would make recruitment difficult and create discontent.

Leo Berry, Association of Montana Retired Public Employees, commented that when he started representing this association, 40 years were considered actuarially sound. He stressed the importance of the system staying sound and repeated key points of previous testimony, adding that an 8% investment return was a reasonable expectation.

Tom Bilodeau, MEA/MFT, rose in support of HB 148, citing previous testimony.

Glen Leavitt, Montana University System, voiced his support on behalf of the university system.

Opponents' Testimony: None

Questions from Committee Members and Responses:

REP. JONES compared PERS to private pension funds and asked Mr. O'Connor if the assumption of an 8% investment return was realistic.

{Tape: 2; Side: B}
Mr. O'Connor replied that based on the experience study and the comparison of other retirement plans, the assumption of a return between 7.5% and 8.5% was entirely reasonable.

CHAIRMAN JENT requested an explanation of the sunset or "trigger" provision. **Mr. O'Connor** advised that based on periodic evaluations, if it is anticipated that the unfunded liability can be paid off in less than 25 years, the Board will suggest to the legislature that the additional contributions can be reduced or eliminated. **CHAIRMAN JENT** wondered whether it was an automatic trigger or required action on the part of the legislature. **Sheri Heffelfinger, Legislative Services Division**, advised that the bill provides that it will be automatically certified to the co-commissioner and the Governor.

Closing by Sponsor:

REP. LAMBERT closed.

HEARING ON HB 104

Opening Statement by Sponsor:

REP. RALPH LENHART (D), HD 38, opened the hearing on **HB 104,** Revise laws governing the Teacher's Retirement System. He emphasized that it did not need a Fiscal Note and gave a brief overview of the bill's provisions.

Proponents' Testimony:

David Senn, Teachers' Retirement Systems (TRS), stated that HB 104 was basically a housekeeping bill which took an innovative approach to solving some problems; these are summarized in his testimony.
EXHIBIT(sth14a06)

(REPS. A. OLSON and JACOBSON leave at 9:40 A.M.)

Glen Leavitt, Montana University System, rose in support of HB 104, adding that it addressed a number of problems relating to university faculty and administrators.

Tom Bilodeau, MEA/MFT, voiced his support of HB 104.

Opponents' Testimony: None

Questions from Committee Members and Responses:

VICE CHAIR BROWN contended that retirements systems had been in effect for years and wondered why this lengthy housekeeping bill was introduced now. **Mr. Senn** explained that it was prompted in part by changes in federal regulations; it became this big because in order to make one small change, many of the sections have to be amended which makes for a lot of pages. He added that because retirements systems change, housekeeping bills will always be necessary.

REP. B. OLSON referred to new Section 14 and asked Mr. Senn how many retirees were taking advantage of the 1/3 employment. **Mr. Senn** advised that in any given month, there were 400 to 600; this number includes 108 to 110 people who retired from the university system who typically would do this for about three years. He added that school districts do not issue contracts unless the substitute works for 35 days; total reported income for this part-time work is about $2.5 million in K-12, and $1.2 to $2 million in the university system.

REP. B. OLSON wondered if these part-time employees paid into the retirement system which **Mr. Senn** denied. **REP. OLSON** inquired if there was a loss to the system since the part-time employee was displacing a full-time teacher who would pay into the retirement system. **Mr. Senn** claimed this could not be calculated; the actuarial assumption is that a retiree who comes back part-time would not pay into the system so there is no loss per se. **REP. OLSON** recalled that 400 to 600 people are taking advantage of this opportunity; this translates into 200 position that could be filled by new teachers under the current structure. He felt that these 200 teachers would be participating in the system. **Mr. Senn** disagreed with the assumption that new teachers would be filling these positions, because oftentimes, the retired teachers act as substitutes for teachers who are on leave.

REP. ANDERSEN asked what would happen to retired teachers who came back to take full-time positions. **Mr. Senn** explained that the Teachers' Retirement Act provides that if a teacher exceeds the part-time limitation or earns more than 1/3 of the previous salary, their benefits will be suspended and they will be reinstated as active members, paying into the system once more. Benefits resume, presumably at a recalculated rate, when they retire.

{Tape: 3; Side: A}
REP. ANDERSEN wondered if their benefits terminate immediately when they go back to work. **Mr. Senn** stated that current statute provides that when they exceed the dollar limitation, the benefits are terminated. The proposed amendment seeks to phase this out by reducing benefits by $1 for each dollar earned in excess.

VICE CHAIR BROWN asked whether the value of a health insurance package is considered in the calculation of the one-third salary. **Mr. Senn** advised that it is calculated on taxable wages only, excluding any fringe benefits.

(REPS. A. OLSON and JACOBSON return at 10:10 A.M.)

REP. EMELIE EATON, HD 58, LAUREL, surmised that many of the retired teachers would substitute statewide which meant that a full-time teacher could not fill these positions.

<u>Closing by Sponsor</u>:

REP. LENHART closed.

HEARING ON HB 239

Opening Statement by Sponsor:

REP. DEE BROWN (R), HD 3, opened the hearing on **HB 239**, Minimum benefit for retired disabled teachers. She stated that this bill was prompted by one of her constituents who had to quit teaching after 15 years because he suffered from brain cancer. HB 239 ensures that any retired teacher who leaves because of a disability with less than 25 years of service will receive a minimum retirement check of $500. Even though $500 was not as much as she would like, she hoped it would open the door for future adjustments.

Proponents' Testimony: None

Opponents' Testimony: None

Informational Testimony:

David Senn, TRS, expounded that in order to qualify for this benefit, a member has to be found mentally or physically incapacitated and unable to further perform their duties, and the disability has to permanent. Years of service average 11.65 and currently, there are 118 disabled members and/or their beneficiaries who would be eligible for the retirement benefit.

Questions from Committee Members and Responses:

REP. JONES asked whether recipients of this benefit would also qualify for Social Security disability checks. **Mr. Senn** stated that teachers' retirement benefits were not tied to Social Security; some people on teacher's disability benefits may not qualify for Social Security disability but he did not know.

REP. DICKENSON inquired how the disability retirement was calculated. **Mr. Senn** explained that if a member had 15 years of service or more, it was calculated the same as the regular retirement benefits: final average salary times the 1.67% multiplier times years of service; if the latter is less than 15 years but at least a minimum of five years, the benefit is based on 15 years with a guaranteed minimum of 25% of the final average salary.

REP. MARY CAFERRO, HD 80, HELENA, wondered whether the teacher's disability benefit would count as income and thus reduce a person's Social Security disability check or whether it would be a "disregard". **VICE CHAIR BROWN** advised she could not answer this question but would get the information.

REP. JONES asked whether teachers had disability insurance. **VICE CHAIR BROWN** stated that teachers could buy it. **REP. JONES** wondered if it was not part of the benefit package, and **VICE CHAIR BROWN** advised that it was in about 20% of school districts, adding that they certainly had the right to purchase it along with anyone else.

Closing by Sponsor:

VICE CHAIR BROWN closed, stating that she had sponsored this bill during a previous session where it was changed so that any retiree qualified for it; it never passed because it got too expensive. In response, she narrowed the bill's focus and hoped for passage this time around.

HEARING ON HB 135

Opening Statement by Sponsor:

REP. DEE BROWN (R), HD 3, opened the hearing on **HB 135,** Require cost-effective system for state airline ticket purchasing. She advised that the Department of Administration is responsible for state procurement activities and has delegated travel purchases to each state agency. Travel expenditures for state business total over $30 million annually, including $3 million for airfare purchases. She contended that in fiscal year 2002, up to an additional $880,000 may have been incurred by using travel agents; this bill would result in a tremendous savings to the state. This information is contained in the Performance Audit Summary, Exhibit 7, provided by the sponsor. The audit by the Legislative Audit Division asked the Department to increase controls for better management of state airfare cost. HB 135 requires that agencies use the state purchasing card (Mastercard) which will add an array of purchasing options, including e-vendors, and result in reducing administrative costs.
EXHIBIT(sth14a07)

Proponents' Testimony: None

Opponents' Testimony: None

Informational Testimony:

Sheryl Olson, Department of Administration, offered to answer any question.

Ken Wilcox, Legislative Audit Division, stated that he was available to answer questions.

Questions from Committee Members and Responses:

REP. B. OLSON asked whether a purchasing credit card would offer reward points or frequent flyer miles. **VICE CHAIR BROWN** stated that even if some airlines did not offer air miles, they would offer a reduction in charges.

REP. ANDERSEN recalled that she had been given an "extra ticket" to attend a meeting in Helena last year and wondered if it was standard practice to buy extra tickets. **Ms. Olson** replied that Big Sky Airlines has a bulk ticket program where one can buy blocks of tickets at a reduced price; they are available for use throughout the year and agencies who require a lot of travel take advantage of it. Horizon Air offers an incentive program for state travel as well. **REP. ANDERSEN** inquired whether these programs resulted in a savings or whether the state would end up with unused tickets. **Ms. Olson** asked to defer this question to **Mr. Wilcox** who stated his committee purchases tickets in bulk for use by legislators and they are being used, resulting in a savings. **CHAIRMAN BROWN** contended this was the whole reason behind this bill: putting parameters and rules on travel purchases so that there will be some control; and instead of buying ten tickets, a hundred should be bought which would produce savings in the future.

REP. GORDON HENDRICK, HD 14, SUPERIOR, asked Mr. Wilcox to explain the usage of the tickets. **Mr. Wilcox** advised that his agency anticipates travel by legislators from the eastern part of the state, for instance, and buys blocks of ten or twenty tickets because it is more cost-effective to fly than to drive. He added that airlines accommodate travel changes for a small fee.

Closing by Sponsor:

VICE CHAIR BROWN closed, saying that even though exact savings are not clear at this point, it still was preferable to give the Department more control as well as promote education and collaboration between agencies.

EXECUTIVE ACTION ON HB 112

Motion: **REP. HENDRICK moved that HB 112 DO PASS.**

Discussion:

REP. DICKENSON stated that teleworking was a great idea, giving young women and mothers more flexibility by allowing them to work from home.

VICE CHAIR BROWN concurred but added that she was concerned with the exposure of an employee working from home in the workers compensation or liability fields. The sponsor had said there would be rules in place to deal with these issues but she commented that she would feel more comfortable if there were rules now.

REP. EATON stated she appreciated the cost savings.

{Tape: 3; Side: B}
REP. JONES concurred.

REP. HENRY stated her support as well, saying that she does some of her work at home as well and is grateful not to have to negotiate winter roads.

REP. JACOBSON stated he had reservations about HB 112 as well but did support it, saying it was not a perfect situation since it created some additional problems for management such as monitoring; he concluded that a lot of details still needed attention.

REP. ANDERSEN asked whether the bill had an effective date; she thought it wise to include a termination date so that a report on the feasibility and success could be provided to the next legislature. Depending on the report, the practice could either be continued or curtailed.

VICE CHAIR BROWN asked John Northey, to inform the committee about follow-up audits.

Mr. Northey, Legal Counsel, Legislative Audit Division, advised that follow-ups are done on performance audits and that there will be one on the telework issue. In addition, legislators or legislative committees may request additional follow-up work at any time. He noted that the bill was designed to set up guidelines and parameters, not a mandate. The Department of Administration is the service entity for all other state agencies; it is logical that they set the parameters and do the monitoring.

<u>Vote</u>: Motion carried 12-4 by voice vote with REPS. ANDERSEN, BROWN, HENDRICK, and JACOBSON voting no.

<u>EXECUTIVE ACTION ON HB 135</u>

<u>Motion</u>: REP. HENDRICK moved that HB 135 DO PASS.

Discussion:

REP. JACOBSON referred to Exhibit 7 which supports claims made by the sponsor but asked VICE CHAIR BROWN to elaborate some more since the parameters of the bill are fairly broad. **VICE CHAIR BROWN** explained the audit made it clear that tighter control was needed to combine and coordinate travel purchases and not have individual agencies do their own. She estimated HB 135 could potentially save $100,000 each year but cautioned that concrete numbers will not be available until a follow-up audit is performed.

REP. A. OLSON informed the committee that airlines give frequent flyer miles to the person who travels and not the purchaser of a ticket. He agreed with the sponsor, though, in that a consolidated purchasing system should be encouraged; he added that a travel agent's services add to the ticket price.

VICE CHAIR BROWN agreed with REP. OLSON, adding that since the Department of Administration has access to agencies' travel purchase reports, it can determine travel patterns and buy books of tickets accordingly.

REP. HENRY stated her support for HB 135 but felt that it could be inconvenient for state employees to have to make their own travel arrangements. **VICE CHAIR BROWN** countered that they travel at the state's expense to meetings and seminars, thereby upgrading their own knowledge and experience; she felt it was a small price to pay.

REP. JACOBSON reminded the committee that even though this bill was broad-based, ideally it would lead to creating the most efficient and cost-effective way for the state to purchase airline tickets.

REP. EATON wondered if an agency would have to make state employees aware of tickets remaining from a bulk purchase.

VICE CHAIR BROWN replied that each agency does their own bulk purchasing based on their historic travel needs; they will be able to continue this practice. **REP. EATON** asked for clarification of who would purchase airline tickets, whether it was the individual traveling or his/her agency. **VICE CHAIR BROWN** advised that the Department of Administration will be in charge; they would, however, educate and train agencies with regard to the use of their web site and require purchases through the state's purchasing card.

REP. A. OLSON advised that the Consumer Counsel buys books of tickets to accommodate legislators' travel from eastern Montana to Helena for interim meetings and such; he stated that agencies pretty much know ahead of time how many tickets will be needed. Occasionally, someone would opt to drive and this would free up a ticket that could be offered to someone else.

REP. EATON wondered whether there would be some sort of punishment if the traveler opted to drive rather than fly because he needed his vehicle at the destination. **REP. A. OLSON** stated that the agencies make an educated guess at the start of each year as to how many tickets may be needed. In his case, it was more cost-effective to drive as he was an hour's drive away from Billings, had to check in an hour ahead of time, and the flight took one hour; he could drive to Helena in three hours for less than the cost of a round-trip ticket. He doubted that there would be a huge surplus of tickets, though, and was certain that once the policies were in place, agencies would benefit.

Mr. Northey advised that with the audit, had envisioned the streamlining of travel purchases. He conceded that agencies pre-planned but stated it was entirely possible to have someone from Eastern Montana appointed to an agency whose members had always driven to meetings; before HB 135, they would have had to learn how and where to purchase tickets at a discount. HB 135 simplified the process and achieved the savings by having an airline coordinator at the Department tell them how to go about it instead of having 50 different agencies buy their own tickets.

REP. OLSON wondered how the Department proposed tracking each agency's expenses without adding additional employees. **Mr. Northey** replied existing employees would simply absorb the extra duties; since the web site was up and running, all they needed was a coordinator.

REP. A. OLSON asked where the cost savings would be since agencies had to budget for this service. **Mr. Northey** advised that under the current system, additional cost is incurred because every agency does their own purchasing. HB 135 would provide guidance and streamlining by coordinating purchases so there would not be a "travel agent" in every agency; this approach would produce the cost savings.

CHAIRMAN JENT advised that in his opinion, all HB 135 required was for the Department of Administration to set up a system to purchase plane tickets at the lowest possible cost. The Legislative Audit Division would follow up on the progress as part of their audit.

REP. A. OLSON opposed the bill, saying that every agency would have a cost associated with this service in their budget, whether they took advantage of it or not.

Vote: Motion carried 14-2 by voice vote with REPS. ANDERSEN and A. OLSON voting no.

ADJOURNMENT

Adjournment: 11:00 A.M.

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REP. LARRY JENT, Chairman

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MARION MOOD, Secretary

LJ/mm

Additional Exhibits:

EXHIBIT(sth14aad0.PDF)